Asset Building Program

Overcoming Obstacles to College Attendance and Degree Completion

Toward a Pro-College Savings Agenda

Rachel Black and Mark Huelsman

March 2012

The rise in student loan debt has directed critical attention to the growing pace of college costs as well as the reliance on loans to finance those costs. For graduates entering the workforce in recent years, many are finding that they are unable to find the type of job they thought they were securing when they received their degree, if they are able to find a job at all. Consequently, more loans are going unpaid and student loan debt has become the only class of consumer debt where defaults are increasing.

While debt is a clear indicator of the flaws in the current way that postsecondary education is financed, a less visible consequence is the number of students who never make it to college because they perceive it as financially out of reach or the attrition of students who cannot afford to persist. Students need a way to finance college that helps them build the expectation that college is an attainable goal and the resources to make it a reality without compromising their future financial well-being.

Even in times of economic downturn, a college education continues to be a predictor of job protection and higher earnings. Despite these advantages, students from low-income homes are earning a college degree at the lowest rate in three decades. The divergence of college costs and a family's ability to pay has resulted in a gulf that traditional forms of financial aid fail to bridge. Unfortunately, this translates to a perception that college will be inaccessible in the minds of the students who have the most to gain from that credential.

While expanding existing financial aid for low-income families would help offset costs for students already on a college bound path, introducing these resources at the point of entry are unlikely to expand access to students who may have long dismissed a college education as a financially realistic option. A growing body of evidence, however,

suggests that savings uniquely build both the resources and expectations necessary to increase access by students from low-income families.

The advantages of a college degree within the labor market confer increased financial security over time and represent one of the most consistent predictors of upward economic mobility for low-income workers.

Unfortunately, these families face considerable barriers when trying to save, including, ironically, from the financial aid and public assistance programs that are designed to increase college affordability and material wellbeing. Many of these programs have complex rules and explicit restrictions on the amount of savings families can have, making them less likely to save for both short-term and long-term goals. Removing these barriers, while providing additional savings incentives, could expand the ranks of college educated workforce, especially among students from low-income families. This paper will examine current trends in college cost and college financing, the role of savings in increasing postsecondary access and completion, and present a framework for developing a pro-college savings agenda and specific policy recommendations to overcome obstacles currently faces by low-income students.

The Value of Postsecondary Education

A college degree is vital to securing and keeping employment, increasing earnings, and moving up the economic ladder. This postsecondary premium remains, and perhaps is enhanced, in a post-Great Recession economy. While unemployment remains around nine percent and real wages have fallen, particularly in low-wage occupations, workers with college degrees have emerged more resilient than those without.

Unemployment rates, for example, are twice as high for high school graduates and three times as high for high school dropouts than those with a bachelor's degree or higher.[1] For those who are working, someone with a bachelor's degree earns $1.44 for every $1 earned by someone with only a high school degree.[2] Even among young adults who are entering the job market at its weakest point in recent history, a college degree still presents a marked advantage. In 2010, 88 percent of 23 and 24 year olds with a college degree were employed and, on average, earning $581 a week compared to only 64 percent of their peers with just a high school diploma who were earning $305.[3]

In addition to securing higher paying jobs that increase their earnings during their working years, college graduates are also more likely to benefit from employer defined contribution plans that can aid in a financially-secure retirement as well. Sixty percent of college graduates work for employers that offer a 401(k) style retirement plan versus 40 percent of high school graduates. Among workers with employers that offer a retirement plan, 50 percent of college graduates participate in those plans versus less than 30 percent of high school graduates.[4]

Predictably, the advantages of a college degree within the labor market confer increased financial security over time and represent one of the most consistent predictors of upward economic mobility for low-income workers. Only 16

[1] Bureau of Labor Statistics: November 2011 Official Unemployment Rates by Educational Attainment, ages 25 and older (Seasonally Adjusted):

Bachelor's Degree or Higher: 4.4 percent
Some College or Associate Degree: 7.6 percent
High School Graduates: 8.8 percent
Less than a High School Diploma: 13.2 percent

Note that the "real unemployment rate" is likely higher, as the official U.S. unemployment rate does not include discouraged workers or those working part-time for economic reasons who would be available for full-time work. Including these workers produces an alternative unemployment rate of 15.6 percent, nearly twice as high as the official 8.6 percent unemployment figure for November 2011.

[2] Bureau of Labor Statistics (2011).

[3] Greenstone, Michael and Adam Looney (2011).

[4] Purcell, Patrick and John Topoleski (2009).

percent of Americans born in the bottom income quintile who earn a college degree stay at the bottom, compared to 45 percent of those without a college degree.[5]

Finally, the value of postsecondary education extends beyond the household level. Collectively, a college educated workforce earns higher incomes and is more resilient in times of an economic downturn, which translates to higher revenue for local, state, and federal governments through higher taxes. It also increases productivity and contributes to economic growth. In this way, the access and affordability gap between low-income students and their high-income counterparts could have a serious negative macroeconomic impact. A 2009 study estimates that achievement gaps between low-income students and high income students could account for a three to five percent shortfall in U.S. GDP each year.[6]

Obstacles to College Attendance and Completion

Despite the increasing importance of higher education, students in the lowest income quartile are graduating at the lowest rate in 30 years.[7] Even among low-income students with demonstrated academic success, their rates of college attendance are considerably lower than their high income counterparts. According to a 2001 study by the U.S. Department of Education, the highest-achieving students from high-income families attend college at a rate 20 percent higher than the highest-achieving students from low-income families (97 percent versus 77 percent, respectively).[8]

These outcomes reflect the trends and conditions that create barriers between lower-income students and college attendance and completion. This section classifies these barriers as resource constraints, financial assistance obstacles, and low expectations and reviews the ways in which each erodes postsecondary achievement.

Resource Constraints

A driving factor of the decline in college completion among low-income students is the precipitous rise in cost. From 1982-2008, tuition and housing costs rose 439 percent, compared to just a 147 percent increase in median family income.[9] This increase is costly for all families, but for low-income households it can be prohibitive since they have little discretionary income to reallocate to absorb those expenses. Even after grant aid is factored in, families earning less than $30,000 would have to dedicate almost three-quarters of their annual income to cover the remaining educational expenses; families earning $30,000-$54,000 would have to dedicate over one-third.[10] Unsurprisingly, this gap between financial need and a family's ability to meet that need creates a considerable financial barrier. In 2002, it is estimated that half of all college-qualified low- and moderate-income students were unable to attend a four-year college due to cost, and a quarter failed to enroll in any postsecondary institution at all.[11]

Net College Costs* as a Percent of Median Family Income

Income Quintile	1990-2000	2007-2008	% points increased
Lowest quintile	39%	55%	16%
Lower-middle quintile	23%	33%	10%
Middle quintile	18%	25%	7%
Upper-middle quintile	12%	16%	4%
Highest quintile	7%	9%	3%

*Net college costs equal tuition, room, and board, minus financial aid at public four year colleges and universities. The numbers may not add exactly due to rounding.
Source: Measuring Up, National Center for Public Policy and Higher Education (2008).

[5] Haskins, Ron (2008).
[6] McKinsey & Company (2009).
[7] Butler, Stuart M., William W. Beach, and Paul L. Winfree (2008).
[8] Elliott, William (2011).
[9] National Center for Public Policy and Higher Education (2008).
[10] Lynch, Mamie, Jennifer Engle, and Jose Cruz (2011).
[11] Advisory Committee on Student Financial Assistance (2002).

Even among those low-income students for whom cost is not a barrier to entry, the mounting financial burden of college costs can be a barrier to completion. Students with higher levels of unmet financial need are much less likely to persist than students who do not.[12] This may occur from a direct inability to meet their financial obligations as well as the decreased academic attachment that low-income students are more likely to experience due to efforts meet those obligations, such as living at home and taking classes on a part-time basis to accommodate employment.[13]

Financial Assistance Obstacles

While there are various forms and sources of financial aid, these methods can prove inadequate or inaccessible. The process of applying for aid itself imposes a complexity that can deter students from even pursuing possible financial assistance. Cumulatively, these factors limit the utility of existing financial supports and can reduce college enrollment among low-income students by reinforcing the perception of college as an unaffordable goal. For those that do enroll, students can be left with a considerable financial burden in the form of debt.

Once the primary pillar supporting postsecondary access among low-income students, federal and state grants have failed to grow at the same pace as postsecondary costs. The Federal Pell Grant, the largest piece of financial assistance to low-income students, covered half of all public higher education costs during the 1987-88 school year. In 2009, the grant covered only 35 percent of the cost.[14]

On the state level, need-based aid is shrinking as a share of overall assistance and failing to keep up with rising costs. In the 2008-2009 school year, 72 percent of state grant dollars were distributed on the basis of need compared to 89 percent two decades earlier.[15] Furthermore, nearly half of all states reduced the budget for need-based aid, and for the states that did make nominal increases in need-based aid, tuition and other costs rose much higher than the nominal increase.[16]

While there are various forms and sources of financial aid, these methods can prove inadequate or inaccessible. The process of applying for aid itself imposes a complexity that can deter students from even pursuing possible financial assistance. Cumulatively, these factors limit the utility of existing financial supports and can reduce college enrollment among low-income students by reinforcing the perception of college as an unaffordable goal.

In addition to the inadequacy of aid, the complexity of acquiring aid itself presents another obstacle limiting postsecondary access. To receive federally funded grants, as well as loans, students must fill out the Federal Applications for Student Financial Aid (or FAFSA). To determine eligibility, students must answer over 150 highly detailed questions about their family's financial situations, many of which are inconsequential to the calculation of their final award, with little certainty about what their effort will yield. As a result, many students simply don't apply. For example, over 30 percent of full-time community college students from families with annual incomes under $50,000 did not complete the FAFSA.[17] Since student on the lower-end of the income scale are most likely to be eligible for aid, failure to apply can result in leaving substantial sums on the table. In the 2003-2004 school

[12] Bresciani, Marilee J. and Lewis Carson (2002).
[13] Engle, Jennifer and Vincent Tinto (2008).
[14] College Board (2010).
[15] College Board (2010).
[16] Lederman, Doug (2011).
[17] Executive Office of the President; Council of Economic Advisers; National Economic Council (2009).

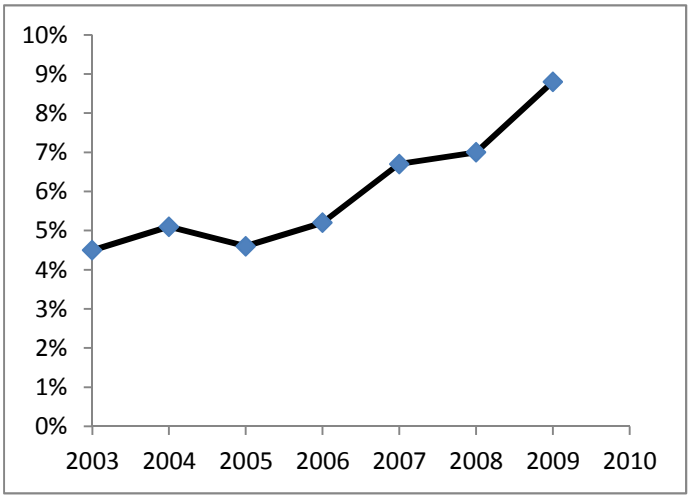
year, 1.5 million students who likely would have been eligible for Pell grants did not file the FAFSA, which was worth a maximum of over $4,000 at that time.[18]

The inadequacy and inaccessibility of grants can leave a significant amount of unmet need. For low-income families, the cost at a four year college minus all types of grant aid can constitute almost half of their annual income.[19] As a result, many students rely on loans to bridge this gap, particularly students from families unable to make contributions to offset costs. For college students from families earning $50,000 or less, only 46 percent received assistance from their families while 63 percent took out student loans. The inverse is true of families earning over $50,000 where only 47 percent of students took out loans and 69 percent received assistance from their families.[20]

A consequence of rising utilization of student loans is the corresponding rise in student loan debt, which has increased 11 percent for students at public institutions and 24 percent students at private institutions over the last 10 years.[21] And low-income students carry larger debt burdens due to the rate and amount they borrow compared to other students. In 2008, 87 percent of Pell Grant recipients had student loans and were carrying an average of almost $25,000 in debt upon graduation. Among students at all income levels, these averages were 67 percent and just over $23,000, respectively.[22]

This debt can create substantial financial challenges in any economic environment, but recent college graduates are finding fewer jobs and lower wages than their pre-recession peers, and, as a result, having a harder time repaying their loans. Between 2003 and 2009, the rate of default among student loan holders who had recently entered repayment almost doubled, reaching 8.8 percent.[23]

Student Loan 2- Year Cohort Default Rates, 2003-2009[24]



Source: U.S. Department of Education (2011).

The consequences of default are severe and long-lasting. In order to recover the balance of federally funded loans, the Department of Education can require employers to garnish wages of the borrower, turn over the debt to a private collections agency and assign additional collections costs, or assume amounts that would have been refunded on state or federal taxes. Default also leads to a significant hit to a borrower's credit score, making future credit less accessible and more expensive, and possibly also marking him as a risk when seeking employment or rental housing.

Although the deductibility of student loan interest can make this debt more affordable, most of this support accrues to higher income households since the size of the deduction is based on a household's marginal tax rate. As a result, households making under $30,000 receive about $90 on average, households earning over $100,000 receive over $500.[25]

Over the past couple of decades, tax subsidies have increasingly become, functionally, part of a student's financial aid "package." However, due to their structure and

[18] King, Jacqueline E. (2006).
[19] Advisory Committee on Student Financial Assistance (2010).
[20] Elliott, William III (2011).
[21] College Board (2011).
[22] The Institute for College Access and Success (2010).
[23] U.S. Department of Education (2011).

[24] The cohort default rate is the percentage of borrowers who enter repayment in a fiscal year and default by the end of the next fiscal year. A loan is considered in "default" if a payment has not been made in either 270 or330 days, depending on the type of loan.
[25] Maag, Elaine, David Mundel, Lois Rice and Kim Rueben (2007).

administration, they have limited benefit to the student with the greatest need. In the 1990s, the Hope and Lifetime Learning tax credits were created, aimed at increasing postsecondary access and affordability among low- and moderate- income families. Importantly, the tax credits were not refundable, leaving families without a tax liability ineligible to receive the benefit. As a result, in 2005 only 15 percent of Hope recipients had annual incomes under $30,000, while 60 percent reported annual incomes of over $50,000.[26]

"Imagine a car dealer who told customers about a rebate incentive only after they had agreed to purchase a car. What would happen? Customers who were willing to buy at the prerebate price would be pleasantly surprised and drive out of the dealership with their wallets a little fuller than they had anticipated. Customers scared off by the sticker price would never even learn about the rebate and would walk out not knowing that the car they wanted was affordable."

In 2009, the American Recovery and Reinvestment Act (ARRA) created the American Opportunity Tax Credit (AOTC) – a temporary replacement for the Hope Credit.[27] ARRA increased the maximum credit from $1,800 to $2,500 (the maximum Lifetime Learning Credit is $2,000), and allowed the credit to be claimed for a maximum of four years of college instead of the previous limit of two years. ARRA also made the AOTC partially refundable, allowing low- and moderate- income families to receive a credit of up to $1,000, or 40 percent of the maximum credit for those with a tax liability – potentially reaching an additional 3.8 million students.[28] Due to these adjustments, the percent of households claiming the AOTC with an Adjusted Gross Income below $30,000 increased to 40 percent.[29]

While the AOTC is an improvement over the Hope credit, partial refundability limits the value of credit to households with little or no tax liability. Furthermore, complexity and timing present additional barriers to the credit for those families that are eligible. As with any tax benefit, the education credits are self-administered and rely on families to navigate the paperwork necessary in order to claim them. This onerous process can act as a deterrent for many households. A Government Accountability Office report indicated that, due to complexity, nearly one in four middle-class families eligible to receive a credit claimed less than the maximum to which they were entitled.[30]

There is also a disconnect between the time of payment of tax credits and receipt of funds. Since tuition and fees are due at the beginning of the semester but credits cannot be claimed until the tax-filing season begins, families often wait over a year to receive their credit. Consequently, they do little to offset the immediate expense incurred by a student or his family.

Low Expectations

Among all of the access barriers presented by current financial aid options, perhaps the most substantial is that their impact is confined to students at the point of enrollment, and necessarily, are only valuable to students who have already decided to pursue a postsecondary degree. One economist has characterized this experience in this way: "Imagine a car dealer who told customers about a rebate incentive only after they had agreed to purchase a

[26] Maag, Elaine, David Mundel, Lois Rice and Kim Rueben (2007).
[27] The Obama administration proposed making the American Opportunity Tax Credit permanent as part of its FY 2012 budget.
[28] Brunet, Gillian, Greenstein, Robert and Huang, Chye-Ching (2009).
[29] U.S. Department of the Treasury (2010).
[30] Brostek, Scott (2008).

car. What would happen? Customers who were willing to buy at the prerebate price would be pleasantly surprised and drive out of the dealership with their wallets a little fuller than they had anticipated. Customers scared off by the sticker price would never even learn about the rebate and would walk out not knowing that the car they wanted was affordable."[31]

Evaluating the feasibility of college begins far before the first payment is made at the bursar's office, and for many potential students, the possibility of obtaining a college degree was discounted years before. A study by the U.S. Department of Education in 2002 found that even among college qualified, low-income twelfth graders, only 63 percent expected to attend a four-year college compared to 88 percent of college qualified, high-income students.32 Current forms of financial aid, therefore, fail to address the expectations barrier that can be as formidable as the resource barrier.

A student's expectations are consequential because they can manifest as behaviors with a material impact on their postsecondary options. Low-income students who perceive that college is financially unattainable, for example, may reduce their academic effort or engagement in other college preparatory activities as early at the fifth grade.[33] So, not only can the lack of financial resources create a barrier to college, the perception of that barrier as insurmountable can create behaviors that put further distance between low-income students and a college degree.

Savings: Changing the Default

A student's likelihood of attending college is largely determined by their parent's economic and human capital, such as level of educational attainment, income, and assets, primarily because of the financial advantage or disadvantage that it conveys.[34] In this way, a parent's level of educational and economic status establishes a default for that of her child.[35] The household financial environment creates powerful contextual cues that form a student's perception of college as accessible or meaningful.[36] As a result, students' expectations for college, as well as the resources they have available to finance college, increase with the level of their parent's education.[37] The economic mobility data mentioned previously reinforces this dynamic. Expanding postsecondary access among low-income students, then, requires decoupling the circumstances of one generation and the opportunities of the next. Savings uniquely delivers this intervention by providing a source of expectations and resources for college among low-income students independent of their parents' income.

Expanding postsecondary access among low-income students, then, requires decoupling the circumstances of one generation and the opportunities of the next. Savings uniquely delivers this intervention by providing a source of expectations and resources for college among low-income students independent of their parents' income.

A growing body of research is establishing a strong link between savings and wealth and outcomes such as increased college expectations, academic performance, college attendance, and college completion, even after

[31] Dynarksi, Susan and Judith Scott-Clayton (2007).
[32] ACSFA. (2002).
[33] Destin, Mesmin and Daphna Oyserman (2009) and Elliott, William III (2007).
[34] Butler, Stuart M., William W. Beach, and Paul L. Winfree (2008); Friedline, Terrie (2011).
[35] OECD (2010).
[36] Elliott, William, Eun Hee Choi, Mesmin Destin, and Kevin Kim (2011).
[37] Horn, Laura J., Xianglei Chen, and Chris Chapman.

controlling for factors like income.[38] In addition, a link between savings and educational outcomes are also generated when students hold a savings account in their name, regardless of the amount saved. [39][40][41] These findings are consistent with other research that indicates asset ownership promotes a future orientation that elicits certain positive attitudes and behaviors, collectively known as "asset effects."[42]

A student's likelihood of attending college is largely determined by their parent's economic and human capital, such as level of educational attainment, income, and assets, primarily because of the financial advantage or disadvantage that it conveys.

Importantly, students need not be from high-wealth households to experience these results. The promise, then, of students' savings is its ability to override the negative expectations low-income students form from their family's financial circumstances when developing a college bound identity.[43] As such, it is a tool most powerfully deployed among students in households without access to the income or assets that form positive future expectations. In fact, a recent study shows that students' savings is a significant predictor of academic achievement in low-to-moderate income students but not among the high-income students.[44]

[38] Zhan, Min (2006) and Zhan, Min, and Michael Sherraden (2011).
[39] Elliott III, William, Hyunzee Jung, and Terri Friedline (2010).
[40] Elliott, W. and Beverly, S. (2011).
[41] Elliott, W. and Beverly, S. (2011).
[42] Yadama, Gautam and Michael Sherraden (1996).
[43] Elliott, William, Eun Hee Choi, Mesmin Destin, and Kevin Kim (2011).
[44] Elliott, William, Eun Hee Choi, Mesmin Destin, and Kevin Kim (2011).

Collectively, this research suggests that savings and assets, whether present in the household or owned by the student, can play a decisive role in orienting students toward, and promoting attainment of, a college degree.

Barriers to Saving for College

The success of savings as a tool to expand access to college among low-income students is predicated on these families having access to savings itself. Currently, just over a third of parents earning less than $35,000 are saving for their child's college education and among those families, the average savings is less than $14,000.[45] In terms of purchasing power, this would cover less than one year of costs at a public, in-state university.[46] For context, households earning between $35,000 and $100,000 are saving at twice this rate and have average balance of almost $21,000. At the high end, 89 percent of families earning over $100,000 are saving for college and averaging balances of over $51,000.[47] See the graphs on the following page.

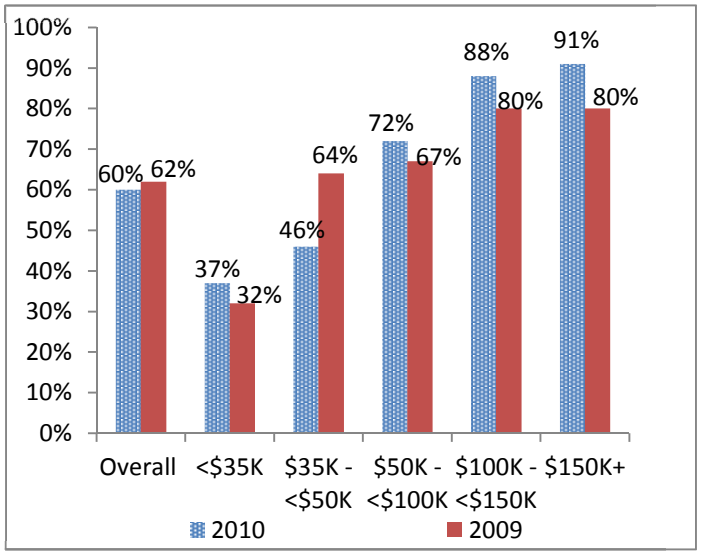
This research suggests that savings and assets, whether present in the household or owned by the student, can play a decisive role in orienting students toward, and promoting attainment of, a college degree.

In saving as well as with college access, low-income families can face considerable barriers. While lack of resources with which to save appears to be the most obvious impediment, research shows that, when presented with supports that facilitate and incentivize saving, such as those current policies made available to higher income

[45] Sallie Mae and Gallup (2010).
[46] College Board (2011). In the 2010-2011 school year, the average published cost of tuition and fees and room and board at a public, in-state university were $16,140.
[47] Author's calculations using data from Sallie Mae/Gallop.

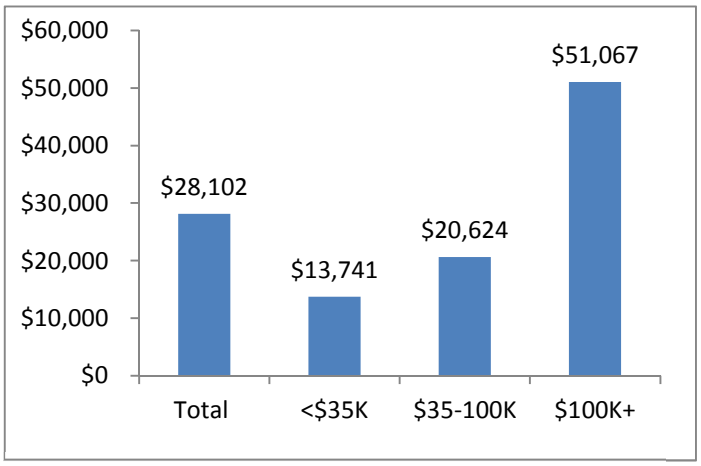
households, even very low-income families will begin to save and develop strategies to continue saving.[48] However, not only are low-income families ineligible to benefit from those policy supports, they are penalized by public assistance rules that restrict the amount of savings they can have to receive benefits. This disparity in the treatment of savings owned by higher-income and lower-income families exacerbates the disparity that exists between the two groups in college access.

Percentage of Parents Saving for College



Source: Sallie Mae and Gallup (2010).

Average Total Amount Saved for College, by Income



Source: Sallie Mae and Gallup (2010).

Inaccessible Incentives

In the 1980's several states began offering college savings plans, later called 529 plans after their section of the IRS code, with the intent of offsetting the rising cost of college. With 10 million accounts opened nationwide, 529s now represent the primary college savings vehicle and are now offered by every state (including the District of Columbia). While they have relatively low barriers to entry for low-income participants (often $25 to open an account, contrasted with the $1,000 to $3,000 deposit required to open a mutual fund), these investment products have been traditionally utilized by middle- to upper-income families. According to a 2010 study by the Financial Research Corporation, only 9 percent of account holders reported incomes below $50,000 annually.[49] A factor driving low participation in 529s is lack of information. In a recent survey of parents with children under 18, almost 70 percent of households earning under $35,000 report being "not at all familiar" with 529s.[50]

This disparity in the treatment of savings owned by higher-income and lower-income families exacerbates the disparity that exists between the two groups in college access.

One explanation for why low-income families are less familiar with 529s is that they have the least to gain from participating. The benefits associated with 529s are delivered in the form of preferential tax treatment, both tax-free growth on deposits and withdrawals for qualified uses at the federal level and upfront deductions from income at the state level. These benefits position 529s as an attractive option for middle and upper income households who are likely to actively seek tax-advantaged treatment of their investments as well as present an incentive to continue

[48] Beverly, Sondra G., and Michael Sherraden. (1999) and Beverly, Sondra G., Amanda Moore, and Mark Schreiner(2001).

[49] Bearden, Bridget (2009).
[50] Sallie Mae and Gallup (2010).

saving.[51] Families with low incomes, however, have no need to pursue ways to limit their tax liability and, therefore, would be less familiar with options to do so. In the same survey, less than 40 percent of households earning less than $35,000 cited tax advantages as a likely motivator for saving for college; for households earning over $100,000 this response was 55 percent.[52] By limiting the value of the incentive to low-income families, this policy approach also significantly limits the likelihood that they will be exposed to the program.

Policy Disincentives to Save: Asset Limits

In addition to lacking access to incentives available to higher income families, low-income families face disincentives to save for college created by asset limit rules restricting the amount of savings a family can have to be eligible for assistance. (See Table 1), These rules are often interpreted by potential recipients that college savings are either a liability that must be spent down or avoided altogether so families don't risk being disqualified from assistance when it's needed.

Treatment of different types of savings and assets, including 529s, vary among programs and states. For example, the Supplemental Nutrition Assistance Program (formerly food stamps) has eliminated 529s from consideration when determining program eligibility, but many states still include them when calculating eligibility for TANF. This lack of coordination is pervasive, touching the treatment of all types of savings and assets, and establishes the most restrictive limit as the de facto limit for all programs to which families seek assistance.[53] A family in Alaska with a 529, for instance, could receive SNAP but not TANF, so they would either have to forego TANF assistance or spend down the balance of their 529.

Although the treatment of 529s might seem to be most closely related to the college savings of low-income families, the treatment of vehicles for accumulating unrestricted savings, in practice, is more consequential because it directly impacts the ways in which low-income families are actually saving for college and keep no or low-saving families from establishing the foundation on which longer-term savings goals are built.

While low-income households save at rates much lower than that of their higher income counterparts, nearly a third are saving for college. And even though they report having dedicated savings for a child's college education, most are not utilizing 529s to do so. Instead, low-income families are saving in traditional, non-restricted products such as checking, saving, or other similar accounts.[54] All of these accounts are subject to limits on liquid assets, which can be as low as $1,000. So, while higher income households enjoy sizeable savings incentives through preferential tax treatment of 529s, low-income households face what functionally amounts to a steep marginal tax on their savings, where an additional dollar could cost them substantial amounts of public assistance benefits.

Unrestricted savings present an accessible, realistic, and meaningful entry point that can lead to successfully saving for longer-term goals over time by allowing families to satisfy their short-term consumption needs, establish a buffer against financial shocks, and develop experience saving.

Limits on unrestricted savings also prevent families with little or no savings experience from initiating the sequence of steps that are the precursors to saving for longer-term

[51] Dynarski, Susan (2005).
[52] Sallie Mae and Gallup (2010).
[53] Cramer, Reid, Rourke O'Brien, Daniel Cooper, and Maria Luengo-Prado (2009).
[54] Sallie Mae and Gallup (2009).

goals, like college. For families that have not yet begun to save, investing in a restricted access account like a 529 can be inconsistent with their financial circumstances and savings needs. Unrestricted savings, however, present an accessible, realistic, and meaningful entry point that can lead to successfully saving for longer-term goals over time by allowing families to satisfy their short-term consumption needs, establish a buffer against financial shocks, and develop experience saving.[55] Research shows that without these pieces in place, saving for longer-term goals like college would likely be an untenable prospect. For example, in a study of "almost-participants" in Individual Development Account programs, which assist low-income households in saving for specific, restricted purposes such as a home, business, or college, those without a checking or savings account were more likely to drop out before the program started.[56] Similarly, participants who did participate in an IDA program were less likely to persist if they started without liquid assets.[57] So, by limiting the ability of families to save even modest sums, asset limits also limit their acquisition of the material and experiential benefits of saving that determine a family's ability to save for longer term investments, like postsecondary education.

Policy Disincentives to Save: Financial Aid

Where public assistance rules present an explicit barrier to saving, financial aid rules present a perceived—but significant—disincentive to save for college. Like public assistance programs, the FAFSA considers both income and assets when determining the Expected Family Contribution, which is the basis for calculating aid. This can create the perception that savings will reduce the amount of financial assistance a student is awarded and create a disincentive to save as well as to apply for assistance at all, believing that even a very small amount of savings will disqualify them from aid.[58]

In practice, however, the assets of low-income families count little, if at all, against a student's aid package. Currently, only 5.6 percent of the value of a 529 plan can be used to determine a student's federal financial need and currently sixteen states completely exempt 529 plan balances for determining state grant aid.[59] Furthermore, in 2011 the Obama Administration began allowing students with parental incomes less than $50,000 to skip asset questions on the FAFSA if one of the following apply: anyone in the household received benefits from a means-tested federal benefit program, the student's parents were eligible to file a 1040EZ or 1040A tax return, were not required to file any income tax return, or the student's parent is a dislocated worker.

Despite these exemptions, many families remain unaware of how their savings will be considered until the time that they apply for financial aid, well after the point at which they could have built meaningful balances to mitigate college costs or save for other needs – including emergencies, retirement, and other goals.

Articulating a Pro-College Savings Policy Agenda

Savings are uniquely able to build the resources and expectations necessary to increase college access among low-income students. By removing barriers to saving, policy can in turn remove barriers to college. A pro-college savings policy agenda should:

- communicate clearly and consistently that savings for college is an asset, not a liability, by eliminating disincentives to save;
- provide the institutional supports that families need to start and continue saving, like access to an account and incentives to save; and

[55] Xiao, Jing J. and Franziska E. Noring (1994), Sherraden, Margaret Sherrard, Amanda Moore McBride, and Sondra G. Beverly (2010), and Beverly et al (2008).
[56] Rothwell, David W. and Chang-Keun Han (2009).
[57] Schreiner, Mark and Michael Sherraden (2005).
[58] Dynarksi, Susan and Judith Scott-Clayton (2007) and Reyes, Jessica Wolpaw (2008).
[59] Data from Savingforcollege.com.

- increase the resources that families have to devote to saving to help build sufficient balances.

Each of these principles can be achieved through a set of specific policy actions, examples of which are outlined below.

Communicate that Savings is an Asset

Asset Limit Reform

Just as families cycle in an out of poverty, families cycle in and out of assistance. Asset limits in these programs communicate that their savings could disqualify them from needed support whether they are currently accessing that support or anticipating that they might in the future. To increase savings among low-income families, direct attention should be given to removing disincentive to save in programs with which they interact.

In its FY 2011 budget, the Administration proposed to reform the asset limit rules governing eligibility for means-tested public assistance programs by establishing a national asset limit floor of $10,000 for working age, non-disabled individuals and excluding all refundable tax credits from means-tests for 12 months.[60] This or a similar cross-cutting approach would bring clarity and consistency to the patchwork of asset limit policies implemented by different programs and states.

Since participants don't often understand eligibility rules with specificity, it would, however, fall short of addressing the generalized impression that could disqualify them from the assistance they need.[61] Completely eliminating consideration of savings, in both unrestricted and restricted access accounts (such as 529s) is the only option that would accomplish this objective. While this may seem a significant departure from current practice and open to abuses, at the state level, policy is trending toward this standard, and experience is showing that elimination of asset limits result in little if any increase in participation and actually generate savings in the form of reduced administrative cost.[62] Currently, only four states - Alabama, Colorado, Louisiana, Ohio - have totally eliminated their asset tests for the three largest public assistance programs, SNAP, TANF, and Medicaid. A cross-cutting policy at the federal level would hasten the existing trend and bring definitive clarity to all current or prospective beneficiaries of public assistance that savings is an asset, not liability.

Financial Aid Simplification

Allowing families earning under $50,000 to disregard asset-related questions is an important start, but putting in place a hard figure, under which any savings will not count against a family for financial aid purposes, would allow families to feel comfortable saving long before the FAFSA needs to be completed.

As part of their effort to simplify the process of aid determination, the Obama Administration has proposed eliminating any financial question that could not be prepopulated with IRS data, including six of the most onerous questions related to income and assets.[63] They would, instead, replace those questions with just one question asking if the family owned more than $250,000 in assets, outside of excluded assets such as their home and retirement accounts. This move would be expected to have negligible cost compared to the benefit of simplification. The Administration reports that in the 2007-2008 school year, only four percent of financial aid applicants had more than $150,000 in assets.

Provide Institutional Supports

Establish a savings account for every child

The overwhelming evidence that a savings account, one held in the child's name, can promote a college-bound identity, increased academic achievement, college

[60] Cramer, Reid, Mark Huelsman, Justin King, Alejandra Lopez-Fernandini, and David Newville (2010).
[61] O'Brien, Rourke (2006).
[62] Rand, Dory (2007).
[63] Executive Office of the President; Council of Economic Advisers; National Economic Council (2009).

enrollment and completion argues for establishing an account for every child as early as possible.

Versions of this approach have been implemented in recent years at the state and local level. Both North Dakota and Maine offer savings accounts to children from those states at birth, and in 2010, the City of San Francisco became the first municipality to create a universal college accounts for public school students. Known as Kindergarten to College (K2C), the program creates and seeds accounts with $50 for every student entering kindergarten in the City's public schools and provides an additional $50 to students eligible for the National School Lunch Program.[64]

The growing engagement of state and local governments in expanding savings opportunities for college demonstrates the need and support for this type of approach. These experiences also add to the body of research, most notable the Saving for Education, Entrepreneurship, and Downpayment Initiative, or SEED Initiative, specifying the need for a universal, portable, progressive, and automatic design.[65]

Ultimately, however, only a federal policy can ensure that all children have access to this opportunity. The ASPIRE Act is a federal legislative proposal that incorporates these proven features and provides a model for implementing this approach on a national scale. Under this proposal, a savings account is set up for each child at birth and seeded with an initial deposit. This process takes places automatically, thus maximizing participation. At age 18, students could use the accounts for college as well as other purposes. Since the account would be issued to all children, this policy would circumvent barriers to account ownership that low-income families traditionally face. Matching contributions for children living in households with incomes below national median income would direct savings incentives to those families most in need of that support.

[64] Stuhldreher, Anne and Leigh Phillips (2011).
[65] Sherraden, M., and Stevens, J. (Eds.) (2010).

Leverage existing savings platforms

The existing 529 system supplies an existing infrastructure that can be enhanced to increase enrollment and savings by low income families. One way is to provide these families with incentives, such as matching grants for low- and moderate income families, as 11 state 529 plans do currently. North Dakota, for example, issues a one-time grant of up to $300 for families with incomes of $40,000 or lower ($80,000 for married couples), and up-to-three-year matching grants for families with incomes of $20,000 or below ($40,000 if married). Low-income families in particular stand to reap these incentives, and conceivably could accumulate nearly $2,000 in three years by only putting in $900 of their own money.

An additional way the 529 system could assist families with little or no savings in building savings for college is by adding on a basic savings component. Since dedicated savings first requires basic savings, a starter account would allow either families or students to build the savings and savings experience that will lead to successfully saving for college. Other versions of this multi-function structure have been proposed, and are even in use.[66] However, this proposal combines the integrated account concept with a feature showing promise in the retirement realm and applies it college savings: auto-escalation.[67]

The account could be structured so that after a family has reached a certain savings threshold in their basic account, a modest percent would then be automatically deposited into the 529. Over time, the percent of contributions deposited into the 529 portion would grow as total savings grew. In this way, the attachment to the 529 would reinforce college as the savings goal but allow accumulation of sufficient unrestricted savings so that money in the 529 need not be drawn down in the event of a financial emergency or income shock. And, since this process takes place automatically, it will not require the account owner to make

[66] Loke, Vernon and Reid Cramer (2009) and Elliott, William (2012).
[67] Benartzi, Shlomo and Thaler, Richard S. (2001).

a decision to change the allocation of her contribution or the amount, and, consequently, should facilitate a great accumulation of college savings.

Tax-time is another platform that offers a valuable opportunity to engage low-income families in saving due to the scale of households that engage in the tax filing process and the significance of the resources they receive. This tax season, for instance, over 26 million households are likely to file for the Earned Income Tax Credit with a potential maximum of $5,751.

The ASPIRE Act is a federal legislative proposal that incorporates these proven features and provides a model for implementing this approach on a national scale.

The Saver's Bonus Act, as proposed by Sen. Robert Menendez, is a legislative proposal that would allow low-income tax filers to open a savings account, including a 529, and direct a portion of their tax refund into that account directly on their tax return. This will facilitate saving in 529s among the families who are least likely to already have an account and provide 1:1 match up to $500 as an incentive to save. This approach would make saving for college simple and valuable. By offering short-term CDs as eligible savings products, families could also have the option of saving initially for precautionary purposes and advance to a 529 over time.

Increase the Resources that Families can Save

Combine Conditional Cash Transfer programs with College Savings

Conditional Cash Transfers, or CCTs, are an anti-poverty tool most widely used in the international development context that channel assistance directly to individuals on condition of meeting specified criteria, such as enrolling children in school or having health exams. In some instances, CCT programs include a savings component that also builds financial inclusion and assets in addition to the immediate cash assistance provided.[68] A similar model could implemented to promote savings for postsecondary education, just as Singapore has done.

In 1993, Singapore established Edusave accounts for all students between ages six and 16 to enhance educational opportunity. In addition to making direct contributions to each account, the government also offers students cash incentives tied to academic performance or participation in co-curricular activities.[69] A similar system is currently being tested by the city of New York through their Family Rewards program. While the CCTs distributed through this program are not explicitly linked to savings, half of students interviewed in the Family Rewards program reported using payments to save for college.[70]

These cash incentives are thought to provide multiple benefits to the students that receive them. By linking incentives to specific academic outcome or inputs, CCTs reinforce the behavior that aids in postsecondary preparation. The added resources were also shown to reduce the financial anxiety of the low-income households that participated in the Family Rewards program, which allowed them to focus beyond meeting their immediate need to long term goals, like college.

Advance the American Opportunity Tax Credit

Currently the American Opportunity Tax Credit is partially refundable – an improvement over the Hope credit (which it replaced) but still inadequate for reaching low-income families. In addition, there is also a significant gap between when families have to pay for college expenses and when they receive the credit. Making the credit fully refundable

[68] Zimmerman, Jamie M. and Yves Moury (2009).
[69] Loke, Vernon and Michael Sherraden (2007).
[70] Greenberg, David, Nadine Dechausay, and Carolyn Fraker (2011).

and allowing families the option of claiming the AOTC (or a portion thereof) and depositing the credit into a 529 college savings plan – or other dedicated savings product – when the child enters 8th grade would remedy both problems.[71]

Monies from the tax credits could be invested in principal protected options – currently offered by virtually all 529 plans – while students and families would have a range of investment options from which to choose for their own contributions to the plans. This would allow balances to build up over time, potentially impacting students' college expectations at a much earlier age.

There are current policies being implemented through a similar model. The new Health Care Tax Credit (HCTC), for instance, allows LMI families to purchase medical insurance via newly-created insurance exchanges based on tax returns from two years prior to when coverage begins, and the government will submit the credit directly to an insurance company. In the case of advancing the AOTC, the institution would be the financial institution (or program manager) managing the 529 plan, and the structure already exists for delivering funds from 529 plans directly to higher education institutions. Since a single deposit will be delivered into an existing 529 plan, the Advanced AOTC should be simple to administer.

Moreover, funds from 529 college savings plans can only be used for qualified higher education expenses without incurring a tax penalty, and contributions can come from multiple sources. In addition, several states have matching programs – with varying criteria – for LMI contributors to 529s in their states. This provides a universal platform for depositing federal money into 529s, and has the added benefit of preventing families from claiming the AOTC and using it for purposes other than postsecondary education.

Link 529s with Pell Grants

The Pell Grant program is one of the largest and most important resources for helping low- and moderate-income students afford college. One way to potentially enhance the program's impact would be to add a savings component using 529 plans, having students apply for and receive grants around the time they enter middle school, rather than at the time of college enrollment as currently constructed.[72] Doing so would allow Pell Grants to act as seed accounts for college deposits, and could be leveraged by family, friends, and philanthropic sources.

Closing the college access gap necessarily means closing the savings policy gap as well. Even in a political context where the budget deficit is casting a long shadow over every spending decision, lower rates of poverty, a more resilient labor force, and higher tax revenue generated from more workers earning higher wages make this an investment with valuable returns.

The total size of the grants would be the same as if students received the aid under the current Pell Grant system, but the grants would be divided into installments and deposited into a 529 account for the students over the years leading up to college enrollment. If students chose not to pursue postsecondary education, the money in the account would be reinvested in the program to help other students. Having such funds set aside for individual students early, could motivate more of them to prepare for, apply to, and ultimately complete college.

[71] Huelsman, Mark (2010).

[72] Newville, David (2010).

Toward a Pro-College Savings Policy Agenda

These represent a few of the many ways to construct a pro-college savings agenda that expands the savings, and consequentially educational, opportunities available to low-income students. This type of support in not without precedent: the Federal government expects to spend almost $520 billion this year to help families save and build assets.[73] Since most of these benefits are distributed through the tax system, these incentives to save are highly concentrated on the higher end of the income scale. Even in the context of education spending where the majority of support is targeted to low-income households (primarily through Pell grants), this support is in the form of direct assistance, not savings incentives. This perpetuates a two-tier policy system where higher income families are rewarded for long-term planning and investment and low-income families are either penalized for saving or receive benefits only at the time of need.

Closing the college access gap necessarily means closing the savings policy gap as well. Even in a political context where the budget deficit is casting a long shadow over every spending decision, lower rates of poverty, a more resilient labor force, and higher tax revenue generated from more workers earning higher wages make this an investment with valuable returns.

Rachel Black is a Policy Analyst and Mark Huelsman a former Policy Analyst in the Asset Building Program. He is currently a Master's Candidate in International Education Policy at Harvard University.

[73] Cramer, Reid and Rachel Black (2011).

References

Advisory Committee on Student Financial Assistance (2010). "The Rising Price of Inequality: How Inadequate Grant Aid Limits College Access and Persistence." Washington, D.C.: Advisory Committee on Student Financial Assistance.

Advisory Committee on Student Financial Assistance (2002). Empty promises: The myth of college access in America. Washington, D.C.: U.S. Department of Education, National Center for Education Statistics.

Bearden, Bridget (2009). Evaluating the College Savings Market Opportunity. Financial Research Corporation.

Benartzi, Shlomo and Thaler, Richard S. (2001). "Naïve Diversification Strategies in Defined Contribution Savings Plans." American Economic Review 91: (March 2001): 79-98.

Beverly, Sondra G., and Michael Sherraden (1999). Institutional determinants of saving: Implications for low-income households and public policy. Journal of Socio-Economics, 28:457-473.

Beverly, Sondra G., Amanda Moore, and Mark Schreiner (2001). "A framework of saving and asset accumulation strategies." University of Kansas, School of Social Welfare, Lawrence, KS.

Beverly, S., Sherraden, M., Cramer, R., Zhan, M., Nam, Y., & Williams-Shanks, T. (2008). "*Determinants of Asset Building.*" Washington, D.C.: Urban Institute.

Bresciani, Marilee J., and Lewis Carson (2002). A Study of Undergraduate Persistence by Unmet Need and Percentage of Gift Aid. NASPA Journal, Vol. 40, no. 1, Fall 2002.

Brostek, Scott (2008). Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes. Washington, DC: Government Accountability Office.

Brunet, Gillian, Greenstein, Robert and Huang, Chye-Ching (2009). House and Senate Recovery Packages would Improve Higher-Education Tax Credits. Washington: Center on Budget and Policy Priorities.

Bureau of Labor Statistics (2011). "September 2011 Official Unemployment Rates by Educational Attainment, Ages 25 and Older." Washington, D.C.: Bureau of Labor Statistics.

Bureau of Labor Statistics (2011). "Usual Weekly Earnings of Wage and Salary Workers, Second Quarter 2011." Washington, D.C.: Bureau of Labor Statistics.

Butler, Stuart M., William W. Beach, and Paul L. Winfree (2008). "Pathways to Economic Mobility: Key Indicators." Washington, D.C.: Pew Charitable Trusts Economic Mobility Project.

College Board (2010). Trends in Student Aid 2009. New York, New York: The College Board.

College Board (2011). Trends in College Pricing 2010. New York, New York: The College Board.

College Board (2011). Trends in Student Aid 2011. New York, New York: The College Board.

Cramer, Reid and Rachel Black (2011). "The Assets Report 2011." Washington, D.C.: New America Foundation.

Cramer, Reid, Mark Huelsman, Justin King, Alejandra Lopez-Fernandini, and David Newville (2010). "The Assets Report 2010: An Assessment of President Obama's 2011 Budget and the Changing Policy Landscape for Asset-Building Opportunities." Washington, D.C.: New America Foundation.

Cramer, Reid, Rourke O'Brien, Daniel Cooper, and Maria Luengo-Prado (2009). "A Penny Saved is Mobility Earned: Advancing Economic Mobility through Savings." Economic Mobility Project, 2009.

Destin, Mesmin and Daphna Oyserman (2009). "From Assets to School Outcomes: How Finances Shape Children's Perceived Possibilities and Intentions." Psychological Science, 20(4), 414-418.

Dynarski, Susan (2005). High-Income Families Benefit Most from New Education Savings Incentives. Washington, D.C.: Urban-Brookings Tax Policy Center.

Dynarksi, Susan and Judith Scott-Clayton (2007). "College Grants on a Postcard: A Proposal for Simple and Predictable Student Aid." Hamilton Project Discussion Paper No. 1, 2007.

Elliott III, William (2011). "When Effort and Ability are not Enough to reduce the College Enrollment Gap, Does College Savings Help?" St. Louis, MO: Center for Social Development, Washington University in St. Louis.

Elliott III, William (2012). "Ideas for Refining Children's Savings Account Proposals." Creating a Financial Stake in College Washington, DC: New America Foundation.

Elliott III, William (2012). "We Save, We Go to College." Creating a Financial Stake in College. Washington, D.C.: New America Foundation.

Elliott III, William (2007). "Specifying Children's Educational Expectations: The Potential Impact of Institutions." St. Louis, MO: Center for Social Development, Washington University in St. Louis.

Elliott III, W. and Beverly, S. (2011). Staying on course: The effects of savings and assets on the college progress of young adults. American Journal of Education, 117(3), 343-374.

Elliott III, W. and Beverly, S. (2011). The role of savings and wealth in reducing "wilt" between expectations and college attendance. Journal of Children & Poverty, 17(2), 165-185.

Elliott III, William, Hyunzee Jung, and Terri Friedline (2010). Math Achievement and Children's Savings: Implications for Child Development Accounts. Journal of Family and Economic Issues, 31, 171-184.

Elliott III, William, Eun Hee Choi, Mesmin Destin, and Kevin H. Kim (2011). "The Age Old Question, Which comes First? A Simultaneous Test of Children's Savings and Children's College-Bound Identity." St. Louis, MO: Center for Social Development, Washington University in St. Louis.

Engle, Jennifer and Vincent Tinto (2008). "Moving Beyond Access: College Successes for Low-Income, First-Generation Students." Washington, D.C.: The Pell Institute.

Executive Office of the President; Council of Economic Advisers; National Economic Council (2009). "Simplifying Student Aid: The Case for an Easier, Faster, and More Accurate FAFSA." Washington, D.C.: Executive Office of the President; Council of Economic Advisers; National Economic Council.

Executive Office of the President; Council of Economic Advisers; National Economic Council (2009). "Simplifying Student Aid: The Case for an Easier, Faster, and More Accurate FAFSA." Washington, D.C.: Executive Office of the President; Council of Economic Advisers; National Economic Council.

Federal Reserve Bank of New York (2011). "Quarterly Report on Consumer Debt and Credit: August 2011." New York, NY: Federal Reserve Bank of New York.

Friedline, Terri (2012). Predicting children's savings: The role of parents' savings for transferring financial advantage and opportunities for financial inclusion. Children and Youth Services Review, 34(1), 144-154.

Greenberg, David, Nadine Dechausay, and Carolyn Fraker (2011). "Learning Together: How Families Responded to Education Incentives in New York City's Conditional Cash Transfer Program." New York, NY: MDRC.

Greenstone, Michael and Adam Looney (2011). "How Do Recent College Grads Really Stack Up? Employment and Earnings for Graduates of the Great Recession." Washington, D.C.: Brookings Institution.

Haskins, Ron (2008). "Education and Economic Mobility," in Getting Ahead or Losing Ground: Economic Mobility in America. Washington, D.C.: Pew Charitable Trusts Economic Mobility Project.

Horn, Laura J., Xianglei Chen, and Chris Chapman (2003). Getting Ready to Pay for College: What Students and Their Parents Know About the Cost of College Tuition and What They Are Doing to Find Out. Washington, D.C.: U.S. Department of Education, National Center for Education Statistics.

Huelsman, Mark (2010). "Enhancing Tax Credits to Encourage Saving for Higher Education." Washington, D.C.: New America Foundation.

The Institute for College Access and Success (2010). "Quick Facts About Student Debt." Washington, D.C.: The Institute for College Access and Success.

King, Jacqueline E. (2006) "Missed Opportunities Revisited: New Information on Students Who Do Not Apply for Financial Aid." Washington, D.C.: American Council on Education.

Lederman, Doug (2011). "Mixed News on State Student Aid." Inside Higher Ed. July 11, 2011.

Loke, Vernon and Reid Cramer (2009). "Singapore's Central Provident Fund: A National Policy of Life-long Asset Accounts." Washington, D.C.: New American Foundation.

Loke, Vernon and Michael Sherraden (2007). "Building Children's Assets in Singapore: The Post-Secondary Education Account Policy." St. Louis, MO: Center for Social Development.

Lynch, Mamie, Jennifer Engle and Jose Cruz (2011). "Priced Out: How the Wrong Financial-Aid Policies Hurt Low-Income Students." Washington, D.C.: The Education Trust.

Maag, Elaine, David Mundel, Lois Rice and Kim Rueben (2007). Subsidizing Higher Education through Tax and Spending Programs. Washington, D.C.: Urban-Brookings Tax Policy Center.

McKinsey & Company (2009). The Economic Impact of the Achievement Gap in America's Schools. Retrieved from: http://www.mckinsey.com/app_media/images/page_images/offices/socialsector/pdf/achievement_gap_report.pdf

National Center for Public Policy and Higher Education (2008). Measuring Up 2008: The National Report Card on Higher Education. San Jose, CA: National Center for Public Policy and Higher Education.

Newville, David (2010). "The Potential of Inclusive 529 College Savings Plans." Washington, D.C.: New America Foundation.

O'Brien, Rourke (2006). "Ineligible to Save? Asset Limits and the Savings Behavior of Welfare Recipients." Washington, D.C.: New America Foundation.

OECD (2010). "A Family Affair: Intergenerational Social Mobility across OECD Countries," in Economic Policy Reforms: Going for Growth 2010. Paris: OECD Press, 2010.

Purcell, Patrick and John Topoleski (2009). "401(k) Plans and Retirement Savings: Issues for Congress." Washington, DC: Congressional Research Service.

Rand, Dory (2007). "Reforming State Rules on Asset Limits: How to Remove Barriers to Saving and Asset Accumulation in Public Benefit Programs," *Clearninghouse Review*, March-April, 2007.

Reyes, Jessica Wolpaw (2008). "College Financial Aid Rules and the Allocation of Savings." Education Economics, 2008, 16(2): 167-189.

Rothwell, David W. and Chang-Keun Han (2009). "Second Thoughts: Who Almost Participates in an IDA Program?" St. Louis, MO: Center for Social Development, Washington University in St. Louis.

Sallie Mae and Gallup (2010). "How America Saves for College." Washington, DC: Sallie Mae and Gallup.

Schreiner, Mark and Michael Sherraden (2005). "IDAs and Drop-out: Prediction and Prevention." Financial Services Review 14(1), 37-54.

Sherraden, Margaret, Amanda Moore McBride, and Sondra G. Beverly (2010). *Striving to Save: Creating Policies for Financial Security of Low-Income Families.* Ann Arbor, MI: University of Michigan Press.

Sherraden, M., and Stevens, J., editors (2010). "Lessons from SEED: A national demonstration of Child Development Accounts." St. Louis, MO: Center for Social Development, Washington University in St. Louis.

Stuhldreher, Anne and Leigh Phillips (2011). "Kindergarten to College (K2C): A First-in-the-Nation Initiative to Set All Kindergarteners on the Path to College." Washington, D.C.: New America Foundation.

U.S. Department of Education (2011). "National Student Loan Default Rates." Washington, D.C.: U.S. Department of Education.

U.S. Department of the Treasury (2010). "The American Opportunity Tax Credit." Washington, D.C.: U.S. Department of Treasury.

Xiao, Jing J. and Franziska E. Noring (1994). "Perceived Saving Motives and Hierarchical Financial Needs." Financial Counseling and Planning, Volume 5, 1994: 25-45.

Yadama, Gautam and Michael Sherraden (1996). "Effect of Assets on Attitudes and Behaviors: Advance Test of a Social Policy Proposal." Social Work Research, 20 (1996): 3-11.

Zhan, Min (2006). "Assets, parental expectations and involvement, and children's educational performance." Children and Youth Services Review, 28(8), 961-975.

Zhan, Min, and Michael Sherraden (2011). Assets and Liabilities, Educational Expectations, and Children's College Degree Attainment. Children and Youth Services Review, 33(6), 846-854.

Zimmerman, Jamie M. and Yves Moury (2009). "Savings-Linked Conditional Cash Transfers: A New Policy Approach to Global Poverty Reduction." Washington, D.C.: New America Foundation.

Table One: Summary of Asset Limits and Exclusions

	Program								
	TANF			SNAP			Medicaid		
State	Asset Limit	Are 529s excluded?	Are CSA's[i] excluded?	Asset Limit	Are 529s excluded?[ii]	Are CSA's excluded?	Asset Limit[iii]	Are 529s excluded?[iv]	Are CSA's excluded?
Alabama	None	N/A	N/A	None	N/A	N/A	None	N/A	N/A
Alaska	$2,000[v]	No	No	$2,000[vi]	Yes	No	$2,000[vii]	N/A	N/A
Arizona	$2,000	Yes	No	None	N/A	N/A	None	N/A	N/A
Arkansas	$3,000	No	Yes[viii]	$2,000[ix]	Yes	No	$1,000	No	No
California	$2,000[x]	Yes[xi]	No	None	N/A	N/A	$3,150	No	No
Colorado	None	N/A	N/A	None[xii]	N/A	N/A	None	N/A	N/A
Connecticut	$3,000	Yes	Yes	None	N/A	N/A	None	N/A	N/A
Delaware	$10,000	No	No	None	N/A	N/A	None	N/A	N/A
District of Columbia	$2,000[xiii]	No	No	None	N/A	N/A	None	N/A	N/A
Florida	$2,000	No	Yes[xiv]	None	N/A	N/A	$2,000	No	No
Georgia	$1,000	No	No	None[xv]	N/A	N/A	$1,000	Yes	Yes
Hawaii	$5,000	No	No	None	N/A	N/A	$3,250	No	No
Idaho	$2,000	Yes	No	None	N/A	N/A	$1,000	No	No
Illinois	$2,000[xvi]	No	No[xvii]	None[xviii]	N/A	N/A	None	N/A	N/A
Indiana	$1,000[xix]	No	No	$2,000[xx]	N/A	N/A	$1,000	No	No
Iowa	$2,000[xxi]	No	No	None	N/A	N/A	$2,000	No	No
Kansas	$2,000	Yes	No[xxii]	$2,000[xxiii]	Yes	No	None	N/A	N/A
Kentucky	$2,000	No	No	None[xxiv]	N/A	N/A	$2,000	No	No
Louisiana	None	N/A	N/A	None	N/A	N/A	None	N/A	N/A
Maine	$2,000	No	No	None	N/A	N/A	$2,000	No	No
Maryland	None	N/A	N/A	None	N/A	N/A	None	N/A	N/A
Massachusetts	$2,500	No	No	None[xxv]	N/A	N/A	None	N/A	N/A
Michigan	$3,000	Yes	No[xxvi]	$5,000	Yes	No	$3,000	Yes	No
Minnesota	$2,000[xxvii]	No	No	None	N/A	N/A	$10,000	No	No

Mississippi	$2,000	Yes	No	None	N/A	N/A	None	N/A	N/A
Missouri	$1,000[xxviii]	No	No	$2,000[xxix]	Yes	No	None	N/A	N/A
Montana	$3,000	No	No	None	N/A	N/A	$3,000	No	No
Nebraska	$4,000[xxx]	No	No	$25,000	Yes	No	$6,025	No	No
Nevada	$2,000	Yes	No	None	N/A	N/A	$2,000	No	No
New Hampshire	$2,000[xxxi]	No	No	None	N/A	N/A	$1,000	No	No
New Jersey	$2,000	No	No	None	N/A	N/A	None	N/A	N/A
New Mexico	$3,500	No	No	None	N/A	N/A	None	N/A	N/A
New York	$2,000[xxxii]	Yes[xxxiii]	No	None[xxxiv]	N/A	N/A	None	N/A	N/A
North Carolina	$3,000	No	No	None	N/A	N/A	$3,000	No	No
North Dakota	$3,000[xxxv]	No	No	None	N/A	N/A	None	N/A	N/A
Ohio	None	N/A	N/A	None[xxxvi]	N/A	N/A	None	N/A	N/A
Oklahoma	$1,000	No[xxxvii]	No	None	N/A	N/A	None	N/A	N/A
Oregon	$2,500[xxxviii]	No[xxxix]	No	None	N/A	N/A	$2,500	Yes	No
Pennsylvania	$1,000	Yes	No	None[xl]	N/A	N/A	None	N/A	N/A
Rhode Island	$1,000	No	No	None[xli]	N/A	N/A	None	N/A	N/A
South Carolina	$2500	No	No	None[xlii]	N/A	N/A	$30,000	No	No
South Dakota	$2,000	No	No[xliii]	$2,000[xliv]	Yes	No	$2,000	No	No
Tennessee	$2,000	No	No	$2,000[xlv]	Yes	No	$2,000	No	No
Texas	$1,000	Yes	No	$5,000	Yes	No	$2,000	Yes	No
Utah	$2,000	No[xlvi]	No	$2,000[xlvii]	Yes	No	$3,025	No	No
Vermont	$2,000	No	No	None	N/A	N/A	$3,150	No	No
Virginia	None	N/A	N/A	$2,000[xlviii]	Yes	No	None	N/A	N/A
Washington	$1,000[xlix]	No	No	None	N/A	N/A	$1,000	No	No
West Virginia	$2,000	Yes	No	None	N/A	N/A	$1,000	No	No
Wisconsin	$2,500	No	No	None	N/A	N/A	None	N/A	N/A
Wyoming	$2,500	No[l]	No[li]	$2,000[lii]	Yes	No	None	N/A	N/A

[i] CSA stands for Children's Savings Accounts
[ii] As of the 2008 Farm Bill, 529s are no longer counted in determining eligibility for SNAP.
[iii] Asset limits presented here are for parental eligibility; only MO, SC, TX and UT consider assets for CHIP/Medicaid eligibility for children.
[iv] In no state will money in 529 disqualify a child from Medicaid/CHIP. In some, it may disqualify a parent.
[v] State has an alternate asset limit for families with a disabled member of person over age 60 or families of different sizes.
[vi] In these states, households with seniors or people with disabilities and gross income under 200 percent of poverty do not face an asset limit. Those over 200 percent of poverty are not categorically eligible and do face a $3,000 asset limit.
[vii] See v
[viii] Saving for Education, Entrepreneurship and Down Payment (SEED) Children's savings accounts are excluded.
[ix] See vi
[x] See v
[xi] Figure differs for applicants and recipients.
[xii] See vi
[xiii] See v
[xiv] Child's countable assets must be equal or less than $2,000.
[xv] See vi
[xvi] See v
[xvii] Any money in a savings account which was accumulated from a child's earnings, interest, or gifts not exceeding $50 per quarter is exempt.
[xviii] See vi
[xix] See xi
[xx] See vi
[xxi] See xi
[xxii] Money in a child's account is exempt if derived from that child's earnings.
[xxiii] See vi
[xxiv] See vi
[xxv] See vi
[xxvi] See xxii
[xxvii] See viii
[xxviii] See xi
[xxix] See v
[xxx] See v
[xxxi] See xi
[xxxii] See v
[xxxiii] Up to $1,400 is excluded.
[xxxiv] See vi
[xxxv] See v
[xxxvi] See vi
[xxxvii] Saving for Education, Entrepreneurship and Down Payment Children's savings accounts up to $2,000 are excluded.
[xxxviii] Asset limit rises to $10,000 for people in JOBS program.
[xxxix] Only Individual Education Accounts (IEAs) for Jobs Plus participants.
[xl] See vi
[xli] See vi
[xlii] See vi
[xliii] Up to $1,000 in a savings/checking account by a dependent child who is at least a part time student and a part time worker (employed for past 12 months) is excluded.
[xliv] See v
[xlv] See v
[xlvi] Reasonable assistance received for post-secondary education excluded
[xlvii] See v

[xlviii] See v
[xlix] Savings accounts with combined balances up to $3,000 are excluded.
[l] Savings accounts dedicated for higher education and established from earnings of a dependent child under 18 who is a full time student
[li] Savings accounts dedicated for higher education and established from earnings of a dependent child under 18 who is a full time student
[lii] See v

Main Office
1899 L Street, NW
Suite 400
Washington, DC 20036
Phone 202 986 2700
Fax 202 986 3696

California Office
921 11th Street
Suite 901
Sacramento, CA 95814
Phone 916 448 5189

WWW.NEWAMERICA.NET